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# Family Child Care Providers in the CACFP—Operational Effects of Reimbursement Tiering

## A Report to Congress on the Family Child Care Homes Legislative Changes Study

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### Abstract

Family child care providers who participate in the Child and Adult Care Food Program (CACFP) receive reimbursement for qualifying meals served to children in their care. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 mandated a two-tiered reimbursement structure designed to target benefits more narrowly to low-income children and called for a study of its effects on program participants and on meals offered to children. Participating providers who receive the lower Tier 2 reimbursements tend to charge higher hourly fees and spend somewhat less on food, according to analyses controlling for provider's location and operating characteristics. The pattern of meals and snacks that providers offered was not altered by tiering, however.

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# Executive Summary

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Family child care providers who participate in the Child and Adult Care Food Program (CACFP) receive reimbursement for qualifying meals served to the children in their care. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 mandated a two-tiered reimbursement structure—designed to target the program more narrowly to low-income children—and called for a study of its effects on program participants and on meals offered to children. Participating providers who receive the lower Tier 2 reimbursements tend to charge higher hourly fees and spend somewhat less on food, according to analyses controlling for provider's location and operating characteristics. The pattern of meals and snacks that providers offer was not altered by tiering, however.

To comply with the PRWORA study mandate, the U.S. Department of Agriculture (USDA) contracted with Abt Associates Inc. to conduct the *Family Child Care Homes Legislative Changes Study*. This report, one of several prepared as part of the study, presents findings pertaining to the effect of the legislative changes on the operators of family child care homes that participate in the CACFP. It is based on a survey of a nationally representative sample of 1,171 CACFP providers in 1999, together with comparable data from a 1995 study. (See References, p. 34, for a list of the other reports in this series.)

## The CACFP and Tiering

The CACFP is a Federal program, administered by USDA, that subsidizes meals and snacks in participating child care and adult day care facilities. Providers of care are reimbursed a fixed amount for each qualifying meal they serve.

Seeking to focus CACFP benefits more narrowly on low-income children, the PRWORA established a two-tier structure of meal reimbursement rates for family child care homes. Homes that are located in low-income areas or are operated by persons with incomes at or below 185 percent of the Federal poverty guidelines are designated as Tier 1. Meal reimbursement rates for Tier 1 homes are comparable to the rates that existed for all CACFP homes before PRWORA. Family child care homes that do not meet the low-income criteria are designated as Tier 2. They have lower reimbursements, although they can be reimbursed at Tier 1 rates for meals served to children whose household income is at or below 185 percent of the poverty guideline.

For providers classified as Tier 2, CACFP meal reimbursement rates after July 1997 were set at approximately half the Tier 1 level, which was also approximately half of the pre-tiering level for all providers. In fiscal year 1999, Tier 2 homes received meal reimbursements averaging \$177 per month (including some meals reimbursed at the Tier 1 rate). Had they been reimbursed at the Tier 1 rates for all meals, their monthly reimbursements would have averaged \$326.

It was unknown how Tier 2 providers would respond to the lower revenue from CACFP reimbursements. If no other change occurred from pre-tiering operating patterns, the lower CACFP reimbursements would simply translate into lower net income for providers. Alternatively, Tier 2 operating patterns might change in ways that would yield greater revenues or lower costs. (Note that this could occur either by existing CACFP providers changing their operating practices or by a gradual replacement of departing providers with new providers who had different operating practices.) One possible response of particular interest to the CACFP would be a reduction in providers' food expenditures, which could occur through a reduction in the number of meals and

snacks offered during the day, through menus offering less food or less costly food, or through more economical shopping strategies. Increased child care fees charged to parents would be a result leading to increased revenues, as would operating changes such as increased average children in care or operating hours.

The analyses presented in this report explore these and related aspects of CACFP providers' operations and experiences potentially affected by tiering. Separate reports examine two other key questions about providers: the extent to which the reduced financial benefit led to less provider participation in the CACFP, and the extent to which the nutrition package offered to children was changed. Those analyses show a significant reduction in participation among Tier 2 providers, but no material change in the nutritional value of meals and snacks offered in CACFP homes.<sup>1</sup>

## **Provider Responses: Reducing Food Expenditures**

Tier 2 providers appear to have responded to the lower CACFP meal reimbursements by incurring lower food expenditures than would be expected at Tier 1 reimbursement rates. Weekly food expenditures in Tier 2 homes averaged \$91, significantly less than average Tier 1 expenditures (\$110). Even after controlling for differences in the number of children, number of meals, and number of operating days per week, expenditures for Tier 2 providers are estimated to be \$16 less than Tier 1 expenditures, or around \$0.50 less per child per day.

Among providers who had been in the CACFP since at least January 1997 (6 months before tiering took effect), significantly more Tier 2 than Tier 1 providers said they had reduced their food expenditures over the period (16 percent vs. 10 percent), and most of those Tier 2 providers specifically mentioned low CACFP reimbursements as a reason. In addition, among providers who said their expenditures had not changed despite rising food prices over the 2 years, Tier 2 providers were significantly more likely to report economical purchasing strategies such as buying food on sale, or buying canned or frozen rather than fresh food.

## **Provider Responses: Meal Service Patterns**

The reduction in expenditures did not result in a smaller number of meals and snacks served in CACFP homes. Almost identical proportions of providers in 1999 and 1995 offered breakfast, lunch, morning snack, and afternoon snack. The proportion of providers offering evening snack increased significantly from 1995 to 1999, whereas suppers showed a small but nonsignificant increase.

Among providers who had been in the CACFP since 1997, a small proportion said they had stopped serving morning snack. This proportion was significantly greater for Tier 2 than Tier 1 providers, suggesting that some providers may have been responding to the reduced reimbursement. Nonetheless, this did not translate into a difference from 1995 in the proportion of providers offering morning snacks.

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<sup>1</sup> Hamilton *et al.*, *E-FAN-02-002*; Crepinsek *et al.*, *E-FAN-02-006*.

## **Provider Responses: Increasing Fees**

Some Tier 2 providers responded to the reduced CACFP reimbursement by raising their child care fees. More than 40 percent of Tier 1 as well as Tier 2 providers had raised fees since 1997 for reasons not specifically related to CACFP reimbursements. An additional 15 percent of Tier 2 providers, however, said they raised fees at least partly because of low CACFP reimbursements.

Average provider fees in 1999, at \$2.12 per hour per child, were not significantly higher than inflation-adjusted 1995 fees. Average fees were \$0.51 higher for Tier 2 than Tier 1, however, a statistically significant difference. Analysis controlling for factors such as the number of children in care and characteristics of the provider's location showed significantly higher fees for those providers receiving the lower reimbursement rate. The effect is estimated at \$0.31 per hour, or \$10 per week for a child in care for 33 hours (the median for children in the study).

## **Other Provider Characteristics**

Little change in CACFP provider operating patterns occurred between 1995 and 1999. The average number of children served and the age ranges served are not significantly different between the two years.

The most notable difference is that a significantly larger proportion of providers in 1999 than 1995 operate for more than 5 days per week. This operating pattern is observed mainly for Tier 1 providers, however, and does not appear to be an effect of the reduced reimbursements in Tier 2 homes.

## **CACFP Perceptions and Experiences**

Although tiering's most obvious effect on providers was the reduced reimbursement level, it also affected some of the program's administrative operations. For example, providers applying for CACFP participation now have to supply the information necessary to determine their appropriate tier. Tier 2 providers, if they wish to be reimbursed at the higher rate for low-income children in their care, must distribute (or have the sponsor distribute) income eligibility forms to parents or request that the sponsor use other available documentation to establish that children are eligible for Tier 1 reimbursement rates. If the income eligibility forms are used, low-income parents must complete the forms and send them to the sponsor in order for the provider to receive the higher reimbursement.

These requirements do not appear to have created substantial differences in the CACFP experiences of Tier 1 and Tier 2 providers, nor between providers in 1999 and those in 1995. Tier 1 providers tended to report going to slightly more training sessions and receiving slightly more home visits from their sponsors than Tier 2 providers. This appears to reflect differences in the providers' interests and experience, rather than different administrative requirements.

Tiering does seem to have led to more negative provider perceptions of the CACFP. Fully 65 percent of Tier 2 providers find the meals reimbursement rates "not very satisfactory" or "not at all satisfactory," compared with 12 percent of Tier 1 providers and just 6 percent of providers in 1995.